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BEFORE THE ARIZONA CORPORATION COMMISSION

2007 MAY 15 P 3:39

COMMISSIONERS

MIKE GLEASON, Chairman
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GARY PIERCE

AZ CORP COMMISSION
DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION OF)
DUNCAN RURAL SERVICES CORPORATION)
FOR A RATE INCREASE)

DOCKET NO. G-02528-05-0687
A

IN THE MATTER OF THE APPLICATION OF)
DUNCAN RURAL SERVICES CORPORATION)
FOR APPROVAL OF A LOAN IN THE)
AMOUNT OF \$400,000)

DOCKET NO. G-02528-03-0205
A

REPORT ON CAPITALIZATION

Duncan Rural Services Corporation ("DRSC") hereby respectfully submits to the Arizona Corporation Commission (the "Commission") its report on its capitalization and equity level in compliance with Decision No. 68599 (March 23, 2006).

I. THE DRSC REPORT.

Decision No. 68599 requires DRSC by May 15 of each year to file a report indicating the breakdown of the components of its most recent year-end capitalization, an explanation of why the five percent increase or more in its year-end 2005 equity level was not met and a projection of the equity balance in the next year and a description of the factors that may prevent DRSC from achieving the five percent equity goal. Finally, Decision 68599 requires DRSC to file for a rate increase if it is unable to increase its equity by five percent annually over three years or seek a waiver of such requirement.

Arizona Corporation Commission
DOCKETED

MAY 15 2007

DOCKETED BY

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1 Concerning DRSC's most recent year-end capitalization, DRSC has attached a Summary
2 Cost of Capital ("Schedule D") to this Report. DRSC's Schedule D shows that DRSC achieved
3 an increase in its equity percentage of at least the 5% as required by Decision No. 68599.
4 According to Schedule D, DRSC's equity percentage increased by 76.07 percent from the
5 December 31, 2005 equity percentage of a negative 80.74 to an equity percentage of a negative
6 4.66 as of December 31, 2006.
7

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9 On November 15, 2006, DRSC and Duncan Valley Electric Cooperative, Inc. ("DVEC")
10 filed an application to transfer DRSC's assets, certain liabilities and Certificate of Convenience
11 and Necessity to a Gas Division of DVEC ("Application") (Docket Nos. G-02528A-06-0729 and
12 E-01703A-06-0729). As a part of this application, DRSC's current long term debt of
13 approximately \$950,000 which is owed to DVEC would be eliminated and only an inter-
14 divisional payable with no interest component or repayment schedule would remain. If its
15 Application is approved by the Arizona Corporation Commission ("Commission"), the
16 consolidated capitalization of DVEC and the capitalization of the newly formed Gas Division of
17 DVEC would remain above 95 percent equity.
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1 RESPECTFULLY SUBMITTED this 15th day of May 2007.

2
3
4 By


John Wallace

Grand Canyon State Electric Cooperative, Inc.

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9
10 Original and thirteen (13) copies of
Duncan Rural Services Corporation Application
filed this 15th day of May, 2007 with:

11 DOCKET CONTROL
12 Arizona Corporation Commission
13 1200 West Washington Street
Phoenix, Arizona 85007

14 By: 
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SUMMARY COST OF CAPITAL
REPORT ON CAPITALIZATION IN COMPLIANCE WITH DECISION NO. 68599

SCHEDULE D-1

	Balance as of 12/31/2005	Balance Percent	Balance as of 12/31/2006	Balance Percent	Projected Balance as of 12/31/2007	Projected Balance Percent	Projected Balance as of 12/31/2008	Projected Balance Percent
Long Term Debt*	\$ 486,325		\$ 945,358		\$ 948,493		\$ 970,738	
Total Long Term Debt	\$ 486,325	180.74%	\$ 945,358	104.66%	\$ 948,493	105.39%	\$ 970,738	107.63%
Total Margins & Equities**	\$ (217,244)		\$ (213,637)		\$ (48,548)		\$ (68,846)	
Plus Debt disapproved in Decision No. 68599	\$ -		\$ 171,516		\$ -		\$ -	
Total Margins & Equities Adjusted	\$ (217,244)	-80.74%	\$ (42,121)	-4.66%	\$ (48,548)	-5.39%	\$ (68,846)	-7.63%
Total Capital	\$ 269,081		\$ 903,237		\$ 899,945		\$ 901,892	
Total Cost of Capital								

*RUS Form 7, Line 34

** RUS Form 7, Line 32

Increase in Equity Percentage as of December 31, 2006 76.07%